

Article 38 (5) (6) Central Securities Depositories Regulation (CSDR)
Direct Participant Disclosure: BNP Paribas Securities Services, Sucursal en España

Disclosure Letter – Spain

1. INTRODUCTION

This document describes the level of protection associated with the two types of segregation accounts that BNP Paribas Securities Services provides in respect of securities that it holds for its clients with Iberclear¹ (referred to as “CSD”), including a description of the main legal implications of the two types of segregation accounts as well as the applicable Spanish insolvency rules.

The disclosure of the information contained in this document is required under Article 38 (5) and (6) of the Central Securities Depositories Regulation EU 909/2014 (“CSDR”). BNP Paribas Securities Services is subject to these disclosure obligations in its capacity as a Direct Participant (see glossary) of CSD. CSDs have their own disclosure obligations under the CSDR.

Capitalised terms not defined in the text shall have the meanings given to them in the glossary at the end of this document.

2. BACKGROUND

The custody of each BNP Paribas Securities Services’ client’s securities is kept through separate client accounts in its books and records. BNP Paribas Securities Services has the obligation to segregate in its books the securities of each of its clients which are themselves segregated from BNP Paribas Securities Services’ proprietary assets.

BNP Paribas Securities Services also opens securities accounts at the level of each CSD and ensures that its clients’ securities are segregated from BNP Paribas Securities Services’ own securities in the books of each CSD, irrespective of the type of accounts described below. CSDs are not permitted to commingle their own assets with securities of their Direct Participants.

BNP Paribas Securities Services is operationally able to establish two types of client securities accounts with CSDs: Individual Client Segregated Account (hereinafter “ISA”) and Omnibus Client Segregated Account (hereinafter “OSA”).

An OSA is used to hold the securities of a number of BNP Paribas Securities Services’ clients on a collective basis.

¹ “Iberclear” is the commercial name of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U,

An ISA is used to hold the securities of one single client of BNP Paribas Securities Services and therefore the securities of that single client are held separately from the securities of BNP Paribas Securities Services' other clients.

Although each ISA may be named in a way that identifies the client for whom it is maintained, the client does not have any right or ability to give instructions directly to the CSD with respect to that ISA and therefore holding securities through an ISA does not give a client any operational rights with respect to that ISA.

For more information on ISAs and OSAs and their respective costs, please click on the following link: [<https://securities.bnpparibas.com/about-us/regulatory-publications/csdr.html>]

3. SPAIN (Iberclear)

3.1 Legal rules regarding securities' ownership

Securities issued in Spain are represented by physical titles or by book entries. The CSD runs the central registry of book-entries and identifies the securities held by each Direct Participant. Securities represented by book entries are registered in the accounts maintained by the CSD.

Under Spanish law, there is a two-tier securities registry system. A central securities registry is kept by the CSD and a detailed registry kept by each Direct Participant.

The CSD offers to its Direct Participants three (3) kinds of accounts:

- proprietary accounts of the Direct Participant (BNP Paribas Securities Services is one of those Direct Participants in Iberclear);
- ISAs of the Direct Participant's clients; and
- OSAs of the Direct Participant's clients or for the clients of an Indirect Participant which has mandated to a Direct Participant the custody and maintenance of a "detailed registry".

In relation to the OSAs, each Direct Participant shall keep a second tier registry called "**Detailed Registry**" per category of securities within the same ISIN Code, comprising all securities to be recorded by the Participant in ("**Detailed Accounts**") of its clients, reflecting the ownership position (net balance) of each individual client.

In order to facilitate the control and reconciliation of the balances of securities recognized in the OSAs with those recorded in the Detailed Accounts, the Direct Participants will organize the Detailed Registry through a unique and standardized coding system of accounts that will be regulated by the CSD in its internal regulation.²

3.2 In relation to the ISAs, these accounts will be opened with the CSD by the Direct Participant for the account of its particular client directly. In any event the ISAs will be managed by the Direct Participant, acting on behalf of its client, in accordance with the

² Regulation of Iberclear approved by the Spanish Securities Commission (CNMV) on 22 December 2015.

relevant securities account agreement between the Direct Participant and its client and the relevant Spanish securities legislation³. **ISA and OSA**

The corresponding names of the ISA and OSA in the CSD are the following:

- ISA: individual account or “*cuenta individual de tercero*”.
- OSA: general third party account or “*cuenta general de terceros*”.

3.3 Insolvency

3.3.1 Insolvency of Iberclear

The Spanish Insolvency Law, in its article 27.2.1^o indicates, with regard to the appointment of insolvency administrators, that in case of bankruptcy of an entity in charge of governing the negotiation, compensation or liquidation of securities or instruments, an insolvency administrator will be appointed amongst the technical staff of the Spanish Securities Market Commission (“CNMV”) or another qualified person proposed by the CNMV.

The special characteristics of CSD, the nature of the activities it performs, the necessary protection of the interests of the Direct Participants in the settlement systems managed by the CSD, the role it plays in the financial and securities market, and its status of an entity subject to the supervision of both the CNMV and the Bank of Spain, within the scope of its respective competences, justify that, in the event of insolvency, the CNMV (acting through the above referred member of its technical staff) will be designated as the entity in charge of the insolvency administration, in order that the necessary measures could be adopted for the orderly recovery or liquidation, as the case may be, of the CSD.

If Iberclear becomes subject to insolvency proceedings, the securities deposited in its books cannot be claimed by its creditors as Iberclear does not hold any ownership rights on those securities. Any non-defaulting Direct Participant and its clients shall have an absolute right of separation from Iberclear’s state in respect of the positions held by the Direct Participants and their clients in the ISAs and OSAs.

Accordingly, in case of an insolvency of Iberclear, the fact that securities are held through an ISA opened in the books of Iberclear on behalf of a particular client of BNP Paribas Securities Services does not give that client more protection than in the case of clients who hold their securities through an OSA.

3.3.2 Insolvency of BNP Paribas Securities Services

³ In particular Royal Decree 878/2015 of 2 October on securities clearing, settlement and registry.

- (a) The main risk assumed by customers of an ISA or OSA account is if BNP Paribas Securities Services fails to comply with its obligations as a Direct Participant of Iberclear or is declared insolvent.

A possible insolvency procedure of BNP Paribas Securities Services (that is a French credit institution with a branch in Spain) would be initiated and controlled by the relevant European banking authorities⁴ and the Banque de France (and -in relation to its activities in Spain- in cooperation with the Spanish Orderly Banking Resolution or “FROB” and/or the Bank of Spain). This process would be very complex and lengthy.

However, in accordance with the Directive 2001/24/EC, the enforcement of proprietary rights in instruments or other rights in such instruments the existence or transfer of which presupposes their recording in a register, an account or a centralized deposit system held or located in a European Union member state (“Member State”) shall be governed by the law of the Member State where the register, account, or centralised deposit system in which those rights are recorded is held or located.

In case of insolvency of a Direct Participant, its clients have an absolute right (*derecho de separación*) over the securities held in their OSA and ISAs with the CSD (without prejudicing the rights of the CSD as referred in paragraph (c) below). In this case, the insolvency administrator or resolution authority would give to the clients’ securities recognised after the closing of the OSAs and/or ISAs the destiny foreseen in the applicable securities, bankruptcy and resolution regulations, . In case of an insolvency of the Direct Participant, the fact that securities are held through an ISA does not give to ISA clients materially more protection than in the case of clients who hold their securities through an OSA.

- (b) The CSD will not accept any transfer order from a Direct Participant in respect of which an insolvency proceeding has been initiated, once said initiation has been known by the CSD.

Without prejudice to the rules of firmness and irrevocability of orders issued, it is possible that: (i) at any stage of the clearing and settlement of an operation, it may be revoked or questioned by the insolvency judge or by the resolution authority; and that (ii) within the framework of said recovery and resolution procedures, clients of the Direct Participant may be limited in their ability to act against the Direct Participant and that the scope of action of the Direct Participant is limited by these authorities or must have their authorization.

Law 41/1999, of 12 November, on payment systems and securities settlement, recognizes the firmness, irrevocability and enforceability (being opposable to third parties and cannot be challenged or cancelled for any reason) of the transfer

⁴ European Central Bank, the Single Resolution Board and the National Competent Authorities

orders. The system (the CSD) by its rules shall establish the moment when the orders are considered to be irrevocable (Article 11 Law 41/1999).

According to article 13 of Law 41/1999, the initiation of an insolvency procedure of a Direct Participant in a system, or of a system manager (the CSD), will not have an effect on the Direct Participant's or system manager's rights and obligations which: (a) are the result of the transfer orders received and accepted by the system prior to the moment when the insolvency notice had been received by the system, or (b) are the result of a netting that, if applicable, is carried out between said orders on the same business day on which the notice was received, or (c) have the purpose to fulfil (including payment) any other commitments on the same business day in order to ensure the successful completion of the accepted transfer orders or the performed netting.

These obligations will be settled, in accordance with the rules of the system, charged to the cash or securities available in the settlement account of said Participant to fulfil the obligations of the latter in the system, as well as charge to the guarantees and other assets and commitments established for these purposes by himself.

- (c) Once a Direct Participant has been declared insolvent, the CSD shall have an absolute right (*derecho de separación*) over the assets or rights provided as a guarantee (collateral) by such Direct Participant in the systems managed by the CSD. Notwithstanding the foregoing, when all the obligations of the Direct Participant are satisfied, the surplus of such collateral will be incorporated into the insolvency estate of the Direct Participant.

Once the insolvency of a Direct Participant has been declared, the CNMV, without prejudicing to the powers of the Bank of Spain and the FROB or any other relevant foreign banking authority, may decide immediately and at no cost to the investors, to transfer their book-entry records to another authorized Direct Participant. In the same way, the owners of such securities may request their transfer to another firm. If no entity is in a position to take over the records, this activity will be assumed by the CSD on a provisional basis, until the holders request the transfer of their book-entry registers. For these purposes, both the insolvency judge and the insolvency administration will facilitate the access of such new Direct Participant to the documentation and accounting and computer records necessary to make the transfer effective. The existence of the insolvency proceeding will not prevent the owners of the securities to carry-out their economic rights over the securities in accordance with the applicable legislation on the clearing, settlement and registration systems.

- (d) Part of the Direct Participant's client's protection comes from the internal rules of the CSD and the applicable legal regime, and it is therefore necessary for such client to understand the content of the same in order to assess the level of protection it has in the event of insolvency of the Direct Participant or default of its obligations as a Direct Participant in Iberclear.

The Spanish laws and regulations shall apply to the regime of segregation and portability, separation of collateral, firmness and irreversibility of transactions

carried out in the Spanish markets and treatment in the event of insolvency of a Direct Participant acting in Spain, in particular the Securities Market Act⁵, Spanish Insolvency Act⁶, Systems of Payments and Liquidation of Securities Act and complementary regulation⁷ and the Recovery and Resolution of Credit Entities and Investment Services Companies Act, together with their respective provisions for development.

3.4 Shortfall

Once a CSD or a Direct Participant has been declared insolvent, the holders of the securities recorded in the accounts of the CSD or the Participant, as relevant, will have the right of separation with respect to the securities owned by such holders from the own securities of the CSD or the Direct Participant, as relevant, and may exercise such right by requesting their transfer to another entity, all without prejudice to the provisions described in paragraph 3.3.2 above in the case of insolvency of a Direct Participant.

The CSD and Direct Participants must guarantee the integrity of the securities issues. The registration systems managed by the CSD and the Direct Participants must guarantee that there are no deviations between the central registry in the books of the CSD and the Detail Registries kept by the Direct Participants in their books. In the case of discrepancy between the central and a Direct Participant Detail Registry, the central registry shall prevail save in the case of merely material or arithmetic error. Other corrections in any securities registries can only be made pursuant to a court resolution.

In any case and without prejudice to the foregoing provisions, when balances of securities with the same ISIN code entered in an OSA are not sufficient to fully satisfy the account holders of securities with the same ISIN code registered in the Detailed Registry kept in the books of the Direct Participant, the balance entered in said OSA opened in the books of the CSD shall be distributed on pro-rata basis according to the rights of the holders registered in the Detailed Registries. The affected account holders who have not repossessed all their securities may only file a claim for the balance in the Direct Participant's or the CSD's insolvency proceedings (the affected account holders will have credit right against the Participant for the securities not delivered).

The pro-rata allocation as described above only applies to OSA accounts of the Direct Participant. This allocation method does not apply to ISAs as these accounts are opened directly with the CSD for the account of a particular Direct Participant's client and there should be no discrepancy between registries as referred to above in the case of OSAs. In the remote event of

⁵ Act 4/2015 of 23 October approving the Consolidated Text of the Securities Market Act

⁶ Act 22/2003 of 9 July on Spanish Insolvency Law and EU Regulation 909/2014 on Central Securities Depositories.

⁷ Act 41/1999 of 12 November on Systems of Payments and Liquidation of Securities, Royal Decree 878/2015 of 2 October and Iberclear Circular 5/2017 of 4 September on Procedures relating to the lost or suspension of the condition of Direct Participant. Insolvency of Participants.

a recording error the relevant Spanish securities and civil procedural laws and Spanish Insolvency Act would apply.

3.5 Additional Information

The Internal Regulation (Rule Book) of Iberclear, to which the client is subject, and which he has read and understood by virtue of operating in these market infrastructures, are available in:

http://www.iberclear.es/docs/docsSubidos/Texto_Refundido_Reglamento_06_Sept_2017.pdf

This Direct Participant Disclosure document is dated September 23, 2019.

GLOSSARY

Central Securities Depository (CSD) is an entity which operates a securities settlement system and provides at least one other core service listed in Section A of the Annex of the CSDR.

Central Securities Depositories Regulation or CSDR refers to Regulation (EU) 909/2014 of the European Parliament and of the Council dated 23 July 2014 on improving securities settlement in the European Union and on central securities depositories.

Direct Participant means an entity that holds securities in an account with a CSD and is responsible for settling transactions in securities that take place within a CSD. A Direct Participant should be distinguished from an Indirect Participant.

Indirect Participant means an entity, such as a global custodian, which appoints a Direct Participant to hold securities for it with a CSD.

Individual Client Segregated Account (ISA) is used to hold the securities of a single client.

Omnibus Client Segregated Account (OSA) is used to hold the securities of a number of clients on a collective basis.

Participant means, as applicable, a Direct Participant or an Indirect Participant.

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